

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Hedrick Savings Bank, Hedrick, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **October 21, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S RATING: This institution is rated **Satisfactory**.

The management of Hedrick Savings Bank actively promotes economic revitalization and growth within its assessment area consistent with the bank's size and capacity to lend. The rating is supported by a strong loan-to-deposit ratio compared to peer. The majority of the loans are within the assessment area and the distribution of these loans, geographically and among applicants of different income levels, meet the standards for satisfactory performance. No complaints were received by the bank regarding its CRA performance.

The following table indicates the performance level of **Hedrick Savings Bank, Hedrick, Iowa** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	HEDRICK SAVINGS BANK, HEDRICK , IOWA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous examination		

DESCRIPTION OF INSTITUTION

Hedrick Savings Bank, with assets of \$18 million as of June 30, 1996, is a subsidiary of Hedrick Bancorp, Inc., a one-bank holding company. The institution is located in Hedrick, Iowa, a small agricultural community that is approximately 95 miles southeast of Des Moines, Iowa.

The bank has no branches; however, the bank plans to relocate the main office 15 miles south to Ottumwa, Iowa, and convert the Hedrick facility to a branch office. Competitors, all located in Ottumwa, include: American US Bank (branch of Des Moines), Central Valley Bank, Firststar Bank of Ottumwa, Norwest Bank Ottumwa (branch), John Deere Community Credit Union, and South Ottumwa Savings Bank.

Loan products offered include real estate, consumer, commercial, agricultural, student, and government guaranteed loans. According to the bank's June 30, 1996 Uniform Bank Performance Report (UBPR), real estate loans represent the primary product at 47.12% of gross loans and leases. The bank does not own an automated teller machine (ATM), but provides ATM cards to customers who wish to access their transaction accounts via ATMs owned by other institutions.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes portions of Wappello and Keokuk Counties; it contains a total of ten block numbering areas (BNAs): 9601 through 9606, 9608 through 9610 in Wappello County, and 9804 in Keokuk County. The following towns are located in Wappello County: Agency, Blakesburg, Chillicothe, Eddyville, Kirkville, Eldon, and Ottumwa. Keokuk County contains Hedrick, Martinsburg, Ollie, Richland, Hayesville, Delta, and Sigourney.

According to the 1990 U.S. census data, the population of the bank's assessment area is 32,096, of which whites constitute 31,280 or 97.50%. The institution's assessment area contains whole geographies, as required by the regulation. The assessment area does not reflect illegal discrimination, and management does not arbitrarily exclude any low- or moderate-income geographies.

According to 1990 census data, the state nonmetropolitan median family income is \$24,256, and the assessment area's median income is \$20,928. There are total of 13,101 households within the assessment area. Of this total, 3,727 or 28.40% are low-income; 2,352 or 18.0% are moderate-income; 2,516 or 19.20% are middle-income; and 4,506 or 34.40% are upper-income. There are 14,115 housing units within the assessment area, of which 9,777 or 69.30% are owner-occupied; 3,365 or 23.80% renter-occupied; and 973 or 6.90% vacant units. The median home value in the assessment area is \$26,171.

According to community contacts, a large percentage of Hedrick's workforce commute to Ottumwa, Oskaloosa, Sigourney, and Fairfield for employment opportunities. According to the 1996 Iowa Manufacturers Register, the following are the major employers within those

communities:

EMPLOYERS	LOCATIONS	# OF EMPLOYEES	PRODUCTION/SERVICE
Excel Corporation	Ottumwa	1300	Meat Processing
John Deere Ottumwa Works	Ottumwa	944	Farm Equipment
Clow Valve Company	Oskaloosa	450	Valves, Hydrants & Cast Iron Gates
The Dexter Company	Fairfield	350	Domestic/Commercial Appliances
Oscar Meyer Foods Corp.	Sigourney	150	Meat Processing

According to the Iowa Department of Employment Services, the unemployment rate for Keokuk, as of August 1996, was 3.2% compared to 4.0% in August 1995. Wappello County's unemployment rate declined from 7.7% as of August 1995 to 3.3% during the same period in 1996. Iowa's unemployment rate has remained stable at 3.3% during the same periods.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has implemented policies and procedures to prevent discrimination in its lending practices. Interviews with the bank president, vice president, compliance officer, and other personnel, as well as a review of the bank's loan files revealed that the institution is in compliance with antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

Loan-To-Deposit Ratio Analysis

The bank's average loan-to-deposit ratio over the most recent four quarters is 79.93%. According to the June 30, 1996 UBPR, the bank's level of lending ranked in the 94th percentile, and its peer's loan-to-deposit ratio is 61.44%. Considering the bank's asset size and capacity to lend within its assessment area, the ratio indicates that the bank exceeds the standard for satisfactory performance in this category.

Lending in Assessment Area

A six-month sample of loans was reviewed to determine the bank's level of lending within its assessment area. The following chart illustrates the lending distribution:

Assessment Area	# of loans	Percentage of Total Loans	Total Dollar Amount of Loans	Percentage of Total \$ amount
IN	394	72.83%	\$5,255,918.00	72.81%
OUT	147	27.17%	\$1,962,721	27.19%

Assessment Area	# of loans	Percentage of Total Loans	Total Dollar Amount of Loans	Percentage of Total \$ amount
Total	541	100.00%	\$7,218,639.00	100.00%

As shown, 72.83% of the total number of loans, and 72.81% of the total dollar amount of loans were made within the bank's assessment area. In addition, approximately 75% of real estate loans in the six-month sample were made within the assessment area. This indicates that the bank is aggressively making real estate loans available within its assessment area. According to a city official, Hedrick is a growing community with a lot of new homes currently under construction.

The bank's performance relative to this assessment criteria meets the standard for satisfactory performance as the majority of the bank's loans were originated within its defined assessment area. According to the community contacts, bank management has historically done an excellent job in making its products and services available to the community.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

A six-month sample was reviewed to determine management's efforts to lend to borrowers of different incomes and businesses of different sizes.

Real Estate Loan Analysis:

For the twelve real estate loans in the examination loan sample, 6 or 50% were originated to upper-income borrowers, 2 or 16.67% were to middle-income borrowers, 2 or 16.67% were to moderate-income borrowers, and the borrower's income was not available for 2 or 16.67%. Management indicated that low-income applicants often do not qualify for conventional mortgage products due to the bank's standard which requires a 25% down payment. Furthermore, due to the bank's size and limited resources, private mortgage insurance (PMI) is not offered. However, in an effort to meet the credit needs of low-income applicants within its assessment area, the bank offers Federal Housing Administration (FHA), Veterans Administration (VA), and Farmers Home Administration (FmHA) loan products. Since the previous examination, the bank originated three FHA loans totaling \$499,520. These types of products require a small down payment (5% down) which is usually accessible to low-income applicants.

Installment Loan Analysis:

The bank does not collect income information for installment loan products; therefore, a loan amount of \$2,000 or less was used as a proxy to reflect lending to low- or moderate-income applicants. A six-month loan sample revealed that 49.08% of installment loans were for amounts of \$2,000 or less.

Commercial and Agricultural Loan Analysis:

A six-month sample of commercial and agricultural loans was reviewed. Although revenue information was not provided for the majority of loans sampled, management indicated that these loans were to small businesses and small farm operations. A loan amount of \$5,000 or less was used as a proxy to determine the bank's efforts to meet the credit needs of these borrowers. The sample revealed that 38% and 36% of commercial and farm loans were originated for amounts of \$5,000 thousand or less, which indicates that the bank has made an effort to meet the credit needs of these borrowers.

For each of the previously mentioned products, the six-month sample revealed that the bank is meeting the credit of borrowers of different incomes and businesses of different sizes. Therefore, the bank meets the standard for a satisfactory rating in this performance category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The 1990 census data indicates that BNAs 9602, 9605, 9609, and 9610 are moderate-income geographies. Although no lending activity occurred in BNA #9609 during the past six months, management indicated that this geography offers a more competitive banking environment where financial institutions adequately meet the credit needs of many area residents.

The following chart illustrates the distribution of loans throughout the bank's assessment area:

BNA #	Population	Number of Loans	Percentage of Total	Dollar Amount of Loans	Percentage of Totals
9601	3,410	4	1.02%	\$1,200.00	0.02%
9602*	2,629	5	1.27%	\$3,386.00	0.06%
9603	4,064	32	8.12%	\$956,383.00	18.20%
9604	3,627	25	6.35%	\$230,398.00	4.38%
9605*	2,559	11	2.79%	\$102,069.00	1.94%
9606	2,926	24	6.09%	\$1,172,141.00	22.30%
9608	3,525	39	9.90%	\$71,718.00	1.36%
9609*	2,997	0	0.00%	\$0.00	0.00%
9610*	3,368	25	6.35%	\$105,291.00	2.00%
9804 **	2,991	229	58.12%	\$2,613,334.00	49.72%
Total	32,096	394	100.00%	\$5,255,920.00	100.00%

*Moderate-income

**Location of bank's office

The bank has loan penetration throughout its assessment area. There is no evidence of irregular lending patterns. Geographic distribution of loans throughout the assessment area appears reasonable; therefore, the bank meets the standards for satisfactory rating in this performance

category.

Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.